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## ***Summary of Best Audit Practices Townhall Meetings April 2001***

On January 4, 2001, the Franchise Tax Board announced a series of town hall meetings to have an exchange of ideas concerning "Best Audit Practices" that taxpayers would like to see incorporated into our audit process. The town hall meetings were held in Houston, New York City, Chicago, Los Angeles, and Oakland. The Sacramento meeting was consolidated with the Oakland meeting due to low RSVP responses. Attendance varied by site but totaled 87 participants representing corporations, individuals, accounting, and legal firms.

Participants were asked "What's Working?" and "What Can We Do Better?" Listed below are the suggestions that we received at the various locations. Although some of the suggestions were mentioned at more than one site, we listed the suggestions once for the sake of brevity. Every attempt was made to accurately capture the participant's suggestion.

In the coming months, Audit Management will be evaluating the suggestions and developing a plan to implement those suggestions that will improve the effectiveness and efficiency of audits conducted. We will be providing updates on our progress with the first update scheduled for the latter part of 2001. It is anticipated that future town hall meetings will be held in two or three years to continually evaluate our audit practices and incorporate needed changes.

We thank everyone who took the time to participate in the town hall meetings.

### ***What's Working?***

- Courtesy & Professionalism
- Auditor knowledge, fairness, and reasonableness
- Technical competence of audit staff
- Openness to discuss issues and arrive at reasonable results
- Two way communication
- Pre-audit meeting to discuss goal of a completion date, issues raised, and information needed
- Disclosure of audit issues and evidence
- Auditors are able to identify necessary documents
- Flexibility in timing responses
- Sticking to agreed timeframes
- Timely follow up on receipt of taxpayer's data
- Written Information Document Requests (IDRs)
- Informing the taxpayer timely of the audit results
- Audit Issue Presentation Sheets (AIPS)
- Audit report is put together well
- Issuance of Supporting Schedules

- Issuance of No Change letters if audit accepted returns as filed
- Refunds pursued

## ***What Can We Do Better?***

### **General Procedures**

- Provide taxpayers' access to the supervisor or manager during the audit process – provide supervisors name in initial contact letter or at opening conference. (Provide full chain of command.)
- Require auditor objectivity – no presumed non-compliance.
- Require consistent application of audit techniques between auditors.
- Look at intent of law and administer intent.
- Consider refund issues.
- Eliminate the perception that there is a performance measurement based on revenue generated.
- Avoid opening an audit within 6 to 12 months of Statute of Limitation expiration.
- Eliminate the “perceived” threat of the waiver or else.
- Eliminate overlapping audit cycles -one is not open before a prior one is closed.
- Provide “Statement of Principles of Tax Administration” to taxpayers.

### **Shortening the Audit Process**

- Limit the scope of the audit.
- Allow the same auditor to conduct multiple audit cycles to allow for business knowledge to transfer from cycle to cycle.
- For Team audits, include new FTB auditors with auditors involved in prior audit cycle to allow for transfer of business knowledge.
- Understand taxpayer's industry and use online resources.
- Require more supervisor participation in audit.
- Require progress meetings throughout audit (supervisor attendance helpful but not always required.)
- Designate issue specialist from Legal and Audit.
- Allow for closing agreements.
- Close years of an audit cycle that are agreed to or completed versus waiting and closing all years of the audit cycle at once.
- Allow supervisors authority to settle cases.
- Allow and require use of Email to conduct audits.

### **Opening Conferences**

- Require an opening conference.
- Discuss the scope of the audit, identify issues, information we found during the scoping process, materiality, information we still need and why, timing.
- Require Supervisor attendance at opening conference.
- Disclose to the taxpayer public information we are relying on and allow taxpayer to explain or rebut.

- **Materiality**
- Materiality of an issue needs to be considered.
- Taxpayer allowed input into the determination of materiality.
- Taxpayer costs considered in materiality calculation.

### **Information Document Requests (IDRs)**

- Limit information requests – eliminate repetitive cycle requests and rely on prior audit file as well as public information.
- Use sampling.
- Use single question IDRs and number.
- Discuss IDR requests with the taxpayer before issuing to determine timeframe for response.
- Discuss relevance of IDRs.
- Discuss and allow for the use of alternative documentation.
- Determine IDRs that can be resolved through the mail as opposed to the necessity of a field visit.
- IDRs should be balanced -Don't over-audit.

### **Audit Issue Presentation Sheets (AIPS)**

- Issue AIPS (single issue) for all adjusted items.
- Reformat AIPS to incorporate date, law and conclusion section.
- Issue AIPS as soon as an issue is completed rather than waiting until the end of the audit.
- Involve all levels of review earlier in the audit process.
- Require or encourage taxpayer agreement with facts.
- Emphasize that taxpayer agreement does not preclude protest or other administrative rights.
- Require disclosure of how an adjustment was determined (mathematically).
- Require acknowledgement and rebuttal to the taxpayer's argument.
- Allow taxpayer to work with Legal, or request assistance, on pure legal issues.

### **Timeframes**

- Require more timely follow up by auditors on taxpayer responses – auditor should set comparable response timeframe (same as we require from taxpayers) and stick to it.
- Response periods should be discussed with taxpayer and determined on a case-by-case basis. For many requests, 30 days is insufficient.

### **Closing the Audit**

- Implement a closing conference with supervisor, current auditor, and subsequent auditor. Allow taxpayer an opportunity to evaluate the audit process.
- Post audit survey on quality of, or issues with the audit.
- Provide taxpayer access to the audit file without redactions.
- Require consistent issuance of reconciliation schedules between the tax liability shown on the tax return and the proposed tax liability shown on the Notice of Proposed Assessment.

### **Review**

- Eliminate cases being returned from review.

- Taxpayer's should have the right to discuss review changes with reviewer; review changes should be clearly explained.
- Identify Technical Review Staff member involved in case.
- If auditor and taxpayer agree to an issue, review should not change the agreed position.
- Stop second-guessing by review staff - Auditor and supervisor have the best knowledge of the case.

### **Other Practices**

- Involve legal staff in audits more.
- Issue a list of "litigation issues" and provide a fast track for these issues - FTB website.
- Identify issues we will settle - FTB Website.
- FTB Website should include listing of appeal briefs, and other legal documents relevant to legal interpretation of a statute.
- Incorporate a neutral party into the audit process to resolve disputes (Taxpayer Advocate).
- Consider tax incentives taxpayer may have left off the return.
- Review prior year audit files or tax returns to identify carryover issues the taxpayer may have forgotten.
- Software packages are not compatible. Taxpayer cannot receive proposed adjustments on disk and update or correct errors.
- Taxpayer should be involved in Technical Advice Memorandum process or whenever we seek advice from Legal on an audit case.
- Eliminate auditor's ability to assess Failure To Furnish penalty and require supervisor to assess.